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Elementary Bookkeeping

By W. G. DAY,

CHARTERED ACCOUNTANT

(of the firm of Harry Day & Co., Worcester),

Associate of Institute of Secretaries; Lecturer on Bookkeeping at the Victoria Institute, Worcester, and the Science School, Kidderminster.

PRICE 1/-

LONDON:

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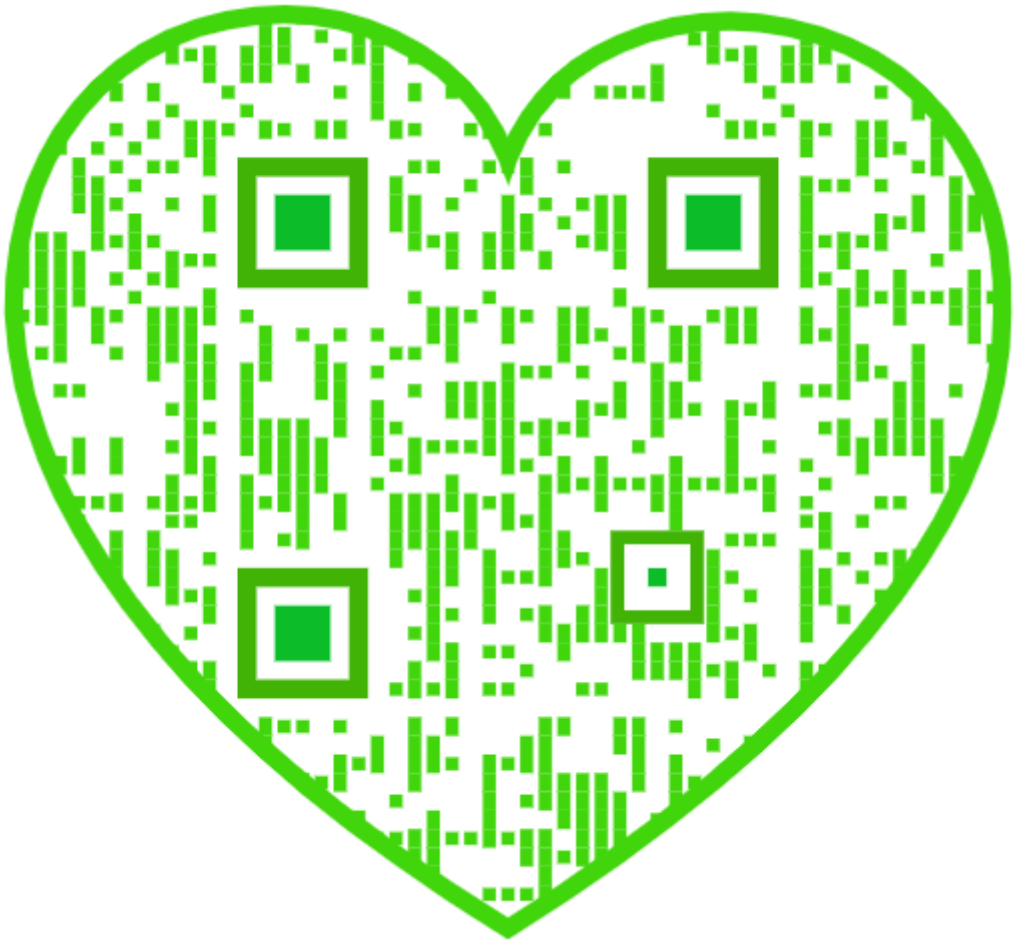

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Elementary Bookkeeping

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PREFACE.

IN giving lessons in Bookkeeping I have found a great difficulty in selecting a suitable text-book for the use of the Students. There are many excellent works on the subject, but they are either too expensive or not simple enough for the pupils in the Technical Classes. It is necessary for a student who is to make use of Bookkeeping in Commercial life that he should have only business transactions to work out, and not complicated problems, such as are set out in some text-books. It is a notorious fact that Bookkeeping as taught in schools is a failure, and this is due, no doubt, to a large extent to the need of a suitable text-book.

I am very surprised to find that a large number of clerks who are doing Bookkeeping nearly every day of their lives know so little of the subject, and it is for them and for the evening student that this book is written.

THE AUTHOR.

9 FOREGATE STREET, WORCESTER.
May 1901.

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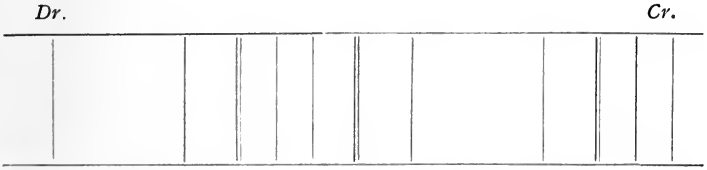
BOOKKEEPING.

THE chief difficulty and stumbling-block in bookkeeping is the most important one—that is, that every transaction requires two entries, a debit and a credit entry, and it is essential to remember this all the way through. The idea is that every transaction involves a "giver" and a "receiver," and a very simple example will illustrate this. If I sell goods to Brown, he is my debtor—that is, he is the receiver—and I (in the form of some account) am the giver or creditor. The student must be very careful to treat each transaction separately, for though, as far as the example given is concerned, Brown is my debtor, I may have previously owed him money, and, as far as the balance of his account is concerned, I may be his creditor. It is this great difficulty which so often proves a stumbling-block.

The Ledger is the most important book in bookkeeping. It is divided into two parts, the left-hand side being the debtor side (written *Dr.*), and the right-hand side the creditor side (written *Cr.*). I give a simple ruling of the Ledger below.



It is quite possible for a man in business to keep all his transactions in a Ledger without using any other books of account. It is, however, found more convenient for many reasons to subdivide the transactions into other books called the

Day Books, Cash Books, &c., &c. It is sometimes difficult to make the student understand that the Cash Book, Sales Book, Purchases Book are really parts of the Ledger kept in separate books, for the Cash Book is simply a Ledger Account, and the Purchases Book is the debtor side of a Ledger Account representing "goods," while the Sales Book is the credit side of the same account. Some confusion is caused by the names of the books, as the Purchases Book is also called the Purchases Journal or Bought Day Book; while the Sales Book is called the Sales Day Book or Sales Journal, or simply Day Book. The use of these books is obvious: the Purchases Book is for entering the purchases daily, the Sales Day Book for entering the sales, and the Cash Book is for the cash received and paid each day.

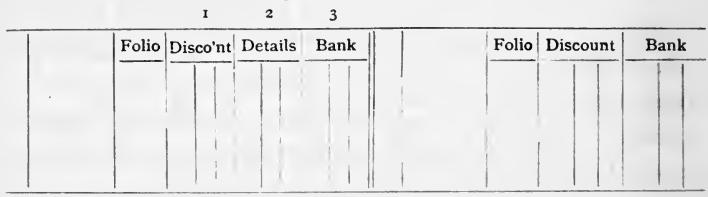
The following are simple rulings of the books:—

SALES DAY BOOK.

Sometimes Column I. is used for the folio, in which case the date is placed at the head @.

PURCHASES JOURNAL.

CASH BOOK.



The words "To," meaning debtor to; and "By," meaning creditor by, are written before the entries in the Cash Book and Ledger.

It is, perhaps, useful to show here that the Sales Book and Purchases Book are parts of the Ledger, as explained on page 8.

The following are transactions of H. Pudge for January 1 1900:—

PURCHASES JOURNAL.

1900		£	s	d	
Jan. 1	Stormberg & Co., Goods (details) ..	120	0	0	A
	French Pattern Co., do.	150	0	0	B
	Leaven Cole & Co., do.	130	0	0	C

SALES DAY BOOK.

		£	s	d
Jan. 1	F. Brook, Goods (details here given).. .. .. .. D	10	0	0
	L. Same, do. do. .. . . E	15	0	0
	T. Turps, do. do. .. .. F	220	0	0

If they had been entered in the Ledger direct to Goods Account they would have appeared as follows:—

Dr. GOODS ACCOUNT. *Cr.*

			£	s	d				£	s	d
Jan. 1	Stormberg & Co...	A	120	0	0	Jan. 1	F. Brook	D	10	0	0
	French Pattern Co.	B	150	0	0		L. Same	E	15	0	0
	Leaven Cole & Co.	C	130	0	0		T. Turps	F	220	0	0

The student will notice that Purchases, being additions to stock, appear on the debit side of Goods; and Sales, being reductions in stock, are credits to Goods. Goods sold for cash are not usually entered in the Sales Book, but posted from the Cash Book to Ledger, and so with goods bought for cash.

The best way of keeping the Cash Book is to enter all the money received in Column 2 (see page 8), to add up each day's takings, and to put the total in Column 3, that representing the

amount paid to bank. As far as payments go, all are made by cheque, except in the case of petty cash, for which a cheque is drawn at intervals.

It is necessary to treat cash as a person who must be debited with all he receives and credited with all he spends. Entries to the debit of cash go to the credit of some other account in the Ledger, and entries to the credit of cash appear to the debit of some account in the Ledger. This, of course, completes the double entry. If I receive either goods or cash, or anything of value, from a man, I must credit him; if I send goods or cash, or anything of value, to a person, I must debit that person.

The following transactions are entered in the Ledger only in order to give the student a clear understanding as to the items of debit and credit.

John Lewis has the following transactions during January:—

		£	s	d
A	Bought Goods from F. Pollin	20	0	0
B	,, ,, ,, R. Suter	50	0	0
C	Sold Goods to L. Pieter	20	0	0
D	,, ,, for Cash	60	0	0
E	Bought Goods for Cash	20	0	0
F	Bought Goods of F. Sea	50	0	0
G	Sold Goods to Rodber	100	0	0
H	Paid Cash to F. Pollin	20	0	0
I	Received Cash from L. Pieter	10	0	0
J	Paid Wages	10	0	0
K	Sold Goods to Turpin	20	0	0
L	Bought Goods of Larkin	25	0	0
M	Paid Rent	15	0	0
N	Received Cash from Rodber	100	0	0
O	Bought New Plant from Sorter	50	0	0
P	Received Cash from Turpin	10	0	0
Q	Bought Goods of Lemon	200	0	0
R	Gave Lemon Bill	150	0	0
S	Sold Goods to Pieter	110	0	0
T	Received Bill from Pieter	100	0	0
U	Allowed Discount	10	0	0

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I have not given dates, but letters, which will enable the student to trace the entries in the Ledger.

The explanation of the items is as follows:—

(A) As Lewis receives something of value from Pollin he must credit him in the Ledger and debit Goods, as it increases the stock. B, F, L, Q, are similar items; the individuals are each credited, and Goods Account debited.

(C) Lewis sends goods to Pieter, and must debit him with the value and credit Goods, because it reduces the stock.

G, K, S, are similar items.

(D) Lewis converts goods into cash by taking some stock and selling it for cash; he must debit Cash and credit Goods, as it reduces the latter.

(E) Another cash transaction; but as Stock is increased, Goods must be debited and Cash credited.

(H) In this case Cash is diminished by £20, so he credits it and debits Pollin, who receives the money.

(I) Cash is increased, so must be debited; and Pieter, who is the giver, must be credited.

N is a similar item.

(J) Paid cash for wages. He must credit Cash, as it reduces the balance in hand, and he must debit some account of expenses—such as Office Expenses or Wages. (All expenses are posted to the debit in the Ledger.)

(M) This is another expense, and Cash is credited and Office Expenses debited.

(O) Plant is here an asset, and must be debited; and Sorter, from whom it was obtained, will be credited.

(R) Instead of Lewis paying cash to Lemon he gives a bill, which is an order promising to pay a certain amount at a future date. Lemon must be debited; but it is not right to credit Cash, but an account must be opened for Bills Payable, and

this must be credited. "Bills Payable" means "persons to whom I owe money on bills."

(I) In this case Pieter, being the giver, must be credited and Bills Receivable debited, Bills Receivable being an account for persons who owe money on bills. Some traders pay their bills direct to the bank and get them discounted, but this is, of course, expensive, as the bankers make a charge.

(U) This being an allowance to Pieter, he must be credited and Office Expenses debited, this being an item of expense.

The Ledger Accounts will be as follows:—

GOODS ACCOUNT.

		£	s	d			£	s	d
To F. Pollin ..	A	20	0	0	By Pieter	C	20	0	0
„ S. Suter ..	B	50	0	0	„ Cash	D	60	0	0
„ Cash	E	20	0	0	„ Rodber ..	G	100	0	0
„ F. Sea.. ..	F	50	0	0	„ Turpin.. ..	K	20	0	0
„ Larkin ..	L	25	0	0	„ Pieter	S	110	0	0
„ Lemon ..	Q	200	0	0					

F. POLLIN.

		£	s	d			£	s	d
To Cash	H	20	0	0	By Goods	A	20	0	0

SUTER.

		£	s	d			£	s	d
					By Goods	B	50	0	0

CASH ACCOUNT.

		£	s	d			£	s	d
To Goods	D	60	0	0	By Goods	E	20	0	0
„ Pieter	I	10	0	0	„ Pollin	H	20	0	0
„ Rodber ..	N	100	0	0	„ Wages ..	V	10	0	0
„ Turpin ..	P	10	0	0	„ Rent	M	15	0	0

F. SEA.

			£ s d				£ s d
				By Goods	T		50 0 0

LARKIN.

			£ s d				£ s d
				By Goods	L		25 0 0

LEMON.

			£ s d				£ s d
	To Bills Payable	R	150 0 0	By Goods	Q		200 0 0

PIETER.

			£ s d				£ s d
	To Goods	C	20 0 0	By Cash	I		10 0 0
	" Do.	S	110 0 0	" Bill Receivable	T		100 0 0
				" Discount ..	U		10 0 0

RODBER.

			£ s d				£ s d
	To Goods	G	100 0 0	By Cash	N		100 0 0

TURPIN.

			£ s d				£ s d
	To Goods	K	20 0 0	By Cash	P		10 0 0

OFFICE EXPENSES.

		£ s d			£ s d
To Cash Wages ..	V	10 0 0			
„ Do. Rent	M	15 0 0			
„ Pieter Discount	U	10 0 0			

BILLS RECEIVABLE.

		£ s d			£ s d
To Pieter	T	100 0 0			

BILLS PAYABLE.

		£ s d			£ s d
			By Lemon ..	R	150 0 0

If the student will take the trouble to add up the debits and credits he will find them agree, and so the double entry will be proved. We have not yet touched upon a very important part of bookkeeping—the Capital Account. When a person opens a business he usually makes out a statement of his assets and liabilities, and this is called a Balance Sheet, and these items form the opening entries for his books. We will take an example. Henry Triumph finds his affairs on January 1 as follows:—

		£	s	d
Assets or possessions:—				
Due to him by J. Pudge	(1)	20	0	0
Do. H. Sampson	(2)	50	0	0
Machinery and Plant	(3)	1,000	0	0
Stock	(4)	500	0	0
Cash	(5)	100	0	0
Liabilities or moneys due by him:—				
Bills payable	(6)	100	0	0
Due by him to Furber & Co.	(7)	100	0	0

The student should be very careful to understand that a Balance Sheet is a statement of assets and liabilities; the surplus of assets over liabilities represents Capital.

To open the accounts in the Ledger it is first necessary to start an account headed:—

H. TRIUMPH—CAPITAL ACCOUNT.

		£	s	d			£	s	d
To Bills payable..	(6)	100	0	0	By Cash	(5)	100	0	0
,, Furber & Co.	(7)	100	0	0	,, J. Pudge ..	(1)	20	0	0
					,, H. Sampson ..	(2)	50	0	0
					,, Machinery and Plant ..	(3)	1,000	0	0
,, Capital ..		1,470	0	0	,, Stock	(4)	500	0	0
		£1,670	0	0			£1,670	0	0
					By Balance ..		1,470	0	0

You will see that Triumph is credited with what belongs to him and debited with the amounts he owes, the balance being his capital. As Triumph credits his account with various assets he must open an account for each in the Ledger, the entry being on the *Dr.* side, and the individuals to whom he owes money must be credited in the Ledger. (These appear on pages 20 and 21.)

Students often find great difficulty in seeing why Capital appears under the heading Liabilities in the Balance Sheet, but if they will remember that it is only a balance they will soon get over the difficulty.

We have to see how capital is affected by trading, and we will enter the following transactions of Triumph and see the result.

I commence with the number "8," as the first seven were capital items, as on page 15:—

	£	s	d
8 Bought Goods from Pudge	50	0	0
9 Sold Goods to Sampson..	10	0	0
10 Bought Goods from Severn	620	0	0
12 Paid Rent	50	0	0
13 Sold Goods to Teme & Co.	100	0	0
14 Do. to Lug & Co.	300	0	0
15 Received for Cash Sale	10	0	0
16 Gave Bill to Severn	100	0	0
17 Received Bill from Teme	100	0	0
18 Paid for Stationery and Books	10	0	0
19 Sold to Philip Bros. Goods	100	0	0
20 Accepted Severn's Draft	400	0	0
21 Bought Plant for Cash	50	0	0
22 Sold to Verniew Bros. Goods	20	0	0
23 Received Cash from them	18	10	0
Allowed Discount	1	10	0
24 Teme's Bill returned Dishonoured	100	0	0
25 Bought Goods from Ribble & Son	250	0	0
26 Accepted their Draft for the Amount			
27 Received Cash from Sampson	10	0	0
28 Paid Rates and Taxes	5	10	0
29 Paid Bills payable due	100	0	0
30 Paid Furber	90	0	0
Deducted Discount	10	0	0
31 Drew for Private Use	20	0	0
32 Received from Sampson	50	0	0

The entries will appear in the various books as below:—

BOUGHT JOURNAL.

		£ s d	£ s d
Pudge (here description, price, &c.)	8		50 0 0
Severn Do.	10		620 0 0
Ribble & Son Do.	25		250 0 0

This book is added up at each quarter, or other period, and the total posted to the debit of Purchases or Goods Account in the Ledger.

SALES DAY BOOK.

			£ s d	£ s d
Sampson (description, &c.)	9			10 0 0
Teme & Co. Do.	13			100 0 0
Lug & Co. Do.	14			300 0 0
Philip Bros. Do.	19			100 0 0
Verniew Bros. Do.	22			20 0 0

This book is cast in the same way as the former, and the total posted to the credit of either Sales or Goods in the Ledger.

LEDGER.

Dr. SEVERN (Address and Description). *Cr.*

		£ s d			£ s
To Bills Payable ..	16	100 0 0	By Goods	10	620 0
„ Do. ..	20	400 0 0			
„ Balance ..		120 0 0			
		£620 0 0			£620 0 0
			By Balance ..		120 0 0

RIBBLE & SON.

		£ s d			£ s d
To Bills Payable ..	26	250 0 0	By Goods	25	250 0 0

TEME & CO.

		£ s d			£ s d
To Goods	13	100 0 0	By Bills Receivable	17	100 0 0
„ Bill returned ..	24	100 0 0			

LUG & CO.

		£ s d			£ s d
To Goods	14	300 0 0			

CASH BOOK.

		Discount	Details	Bank			Discount	Bank
		£ s d	£ s d	£ s d			£ s d	£ s d
To Triumph, Capital A/c.	5	..	..	100 0 0	By Rent	12	..	50 0 0
" Sales	15	..	..	10 0 0	" Stationery, &c. ..	18	..	10 0 0
" Verniew	23	1 10 0	..	18 10 0	" Plant	21	..	50 0 0
" Sampson	27	..	..	10 0 0	" Rates, &c.	28	..	5 10 0
" "	32	..	..	50 0 0	" Bills Payable	29	..	100 0 0
" Balance	..	..	..	137 0 0	" Furber & Co.	30	10 0 0	90 0 0
					" Drawings	31	..	20 0 0
				£325 10 0				£325 10 0
		£1 10 0			By Balance		£10 0 0	137 0 0

* Some people have an additional column here for voucher numbers—a plan I much recommend. In ordinary business the items Nos. 12, 18, 28, would appear as names of persons to whom the money was paid, and the amount posted to the debit of the persons—they would be credited through a Purchases Journal, or, better still, a "Credit Book," which I have explained on page 34.

PHILIP BROS.

		£ s d			£ s d
To Goods.. ..	19	100 0 0			

VERNIEW BROS.

		£ s d			£ s d
To Goods.. ..	22	20 0 0	By Cash	23	18 10 0
			„ Discount ..	23	1 10 0
		£20 0 0			£20 0 0

RENT, RATES, &c.

		£ s d			£ s d
To Cash—Rent ..	12	50 0 0			
„ Do. Rates..	28	5 10 0			

BOOKS AND STATIONERY.

		£ s d			£ s d
To Cash	18	10 0 0			

CASH SALES.

		£ s d			£ s d
To Goods Account	L	10 0 0	By Cash	15	10 0 0

BILLS RECEIVABLE.

		£ s d			£ s d
To Teme	17	100 0 0	By Teme — Dishonoured Bill	23	100 0 0

BILLS PAYABLE.

		£ s d			£ s d
To Cash	29	100 0 0	By Triumph, Capital Account	6	100 0 0
„ Balance ..	..	750 0 0	„ Severn ..	16	100 0 0
			„ Do.	20	400 0 0
			„ Ribble ..	25	250 0 0
		£850 0 0			£850 0 0
			By Balance ..	..	750 0 0

DRAWINGS ACCOUNT.

		£ s d			£ s d
To Cash	31	20 0 0			

DISCOUNT.

		£ s d			£ s d
To Cash	..	1 10 0	By Cash	..	10 0 0
„ Profit and Loss Account ..	..	8 10 0			
		£10 0 0			£10 0 0

GOODS ACCOUNT.

		£ s d			£ s d
To H. Triumph, Capital A/c..	4	500 0 0	By Sundries, Sales Book ..	..	530 0 0
„ Sundries, Bought J'rn'l	..	920 0 0	„ Cash Sales ..	L	10 0 0
„ Profit and Loss Account ..	..	620 0 0	„ Stock in hand down ..	..	1,500 0 0
		2,040 0 0			2,040 0 0
To Stock in hand.	..£	1,500 0 0			

FURBER & CO.

		£ s d			£ s d
To Cash	30	90 0 0	By H. Triumph Capital A/c..	7	100 0 0
„ Discount ..	30	10 0 0			
		£100 0 0			£100 0 0

J. PUDGE.

		£ s d			£ s d
To Triumph Capital A/c..	1	20 0 0	By Goods ..	8	50 0 0
„ Balance ..	..	30 0 0			
		£50 0 0			£50 0 0
			By Balance ..	..	30 0 0

H. SAMPSON.

		£ s d			£ s d
To Triumph Capital A/c..	2	50 0 0	By Cash	27	10 0 0
„ Goods ..	9	10 0 0	„ Do.	32	50 0 0
		£60 0 0			£60 0 0

MACHINERY AND PLANT.

		£ s d		£ s d
To Triumph Capital A/c..	3	1,000 0 0		
„ Cash	21	50 0 0		

In making out a Profit and Loss Account for the period, the first thing H. Triumph has to do is to prepare a Trial Balance, or a list of his debits and credits. The balancing of the Ledger sometimes gives a little trouble to students who are not accustomed to it, but is really very simple. First add the greater side, then the lesser, and the difference goes under the lesser side, and the balance then is transferred to the opposite side, thus:—

LEDGER ACCOUNT.

	£ s d		£ s d
To Debits	500 0 0	By Credits	300 0 0
		„ Balance	200 0 0
	£500 0 0		£500 0 0
To Balance	200 0 0		

The trial balance which Triumph makes out is as follows:—

TRIAL BALANCE.

	Debits.	*Credits.*
	£ s d	£ s d
H. Triumph—Capital Account	..	1,470 0 0
Bills Payable	..	750 0 0
Pudge	..	30 0 0
Machinery and Plant	1,050 0 0	
Goods in Stock	1,500 0 0	
„ Profit on Sale of	..	620 0 0
Cash Balance (due to Bankers)	..	137 0 0
Teme & Co.	100 0 0	
Lug & Co.	300 0 0	
Rent, Rates, &c...	55 10 0	
Philip Bros.	100 0 0	
Books and Stationery	10 0 0	
Drawings	20 0 0	
Discounts, balance of	..	8 10 0
Severn	..	120 0 0
	£3,135 10 0	£3,135 10 0

In the trial balance the debit balances from the Ledger, of course, appear under the head of "Debits," and *vice versâ*.

The Goods Account needs an explanation. The sales only amounted to £530, whereas the purchases were £920, and yet there was a credit balance on the account in the Ledger!

The explanation is simple. There was stock in hand, which had to be reckoned up on sheets or in a book, amounting to £1,500.

As Goods Account is debited with the purchases, it is only fair that it should have credit for the stock in hand.

The student will at once see that a man may buy only £200 worth of goods and sell the same for £1,000; after some process has been gone through the goods become more valuable.

The Cash Book balance is a credit one; that means that the account at the bank is overdrawn. (In such cases the bank usually asks for some security, unless the overdraft is merely temporary.)

Having completed the trial balance, the next movement is to prepare the Profit and Loss Account and Balance Sheet from it.

This is how they will stand:—

PROFIT AND LOSS ACCOUNT.

	£ s d		£ s d
To Rent, Rates, &c.	55 10 0	By Gross Profit on Goods ..	620 0 0
„ Books, Stationery, &c. ..	10 0 0	„ Discounts	8 10 0
„ Balance, being net profit ..	563 0 0		
	£628 10 0		£628 10 0

BALANCE SHEET.

Capital and Liabilities.	£ s d	£ s d	*Assets.*	£ s d	£ s d
To Bills Payable		750 0 0	By Machinery and Plant ..		1,050 0 0
„ Bankers ..		137 0 0	„ Stock		1,500 0 0
„ Open Accounts—			„ Debtors—		
Pudge ..	30 0 0		Teme ..	100 0 0	
Severn ..	120 0 0		Lug Bros. ..	300 0 0	
		150 0 0	Philip Bros.	100 0 0	
„ Capital ..	1,470 0 0				500 0 0
Add Profit	563 0 0				
	2,033 0 0				
Less Drawings	20 0 0				
		2,013 0 0			
		£3,050 0 0			£3,050 0 0

In taking out the items from the trial balance the ones which affect the result of the trading are Profit and Loss items, the remainder Balance Sheet items. Any figures representing gain or loss, of course, are Revenue items. The gross profit will need no explanation, as the student will know that gross profit is here the difference between buying and selling price.

The discounts are a gain, as he received more than he gave.

The Rent, Rates Books, &c., represent expenses, and are therefore debits to Profit and Loss. In the Balance Sheet, which is merely a revised Capital Account of the proprietor, the

assets appear on the credit side, and the liabilities on the debtor, as in the Ledger Account of the owner. (Notice how the stock is focussed into Profit and Loss Account and Balance Sheet.)

The Capital is altered thus:—

Capital as it stood at the beginning, plus gain for the period, minus drawings or money drawn for private uses.

If the student will work out this exercise carefully he will find no difficulty in understanding the way in which the items of profit and loss and the items of assets and liabilities are focussed into their accounts.

It will be seen that a Profit and Loss Account is not an account of receipts and payments only, as it includes amounts accruing to the date of the account, even if they are not paid.

In addition to the items of expenditure appearing in the Profit and Loss Account, it is very usual to see two others, viz.:—

Bad Debts and Depreciation, the former representing debts that are known to be bad, and are therefore written off; and the latter representing an estimated sum for the "wear and tear" of assets—such as Machinery, Buildings, &c.

The following is a synopsis of the work given in the previous chapters:—

Purchases are entered in Purchases Journal, and each item credited to a Personal Account in the Ledger.

Sales are entered in the Sales Day Book, and the items posted to debit of persons in the Ledger. We then get the double entry:—

Drs.	*Crs.*
Total Purchases.	To Jones, Brown, Robinson, &c.
Smith, Perks, &c.	Total Sales.

All cash received goes to the debit of Cash (including Bank Account), all cash paid to the credit of Cash. The former is debited to individuals or accounts in the Ledger, the latter to the credit of ditto. We then get:—

Drs.	*Crs.*
Cash received.	Brooks, Tomes, &c.
Brown, Wages, Rent, &c.	Cash paid.

All expenses and assets appear as debits in the Ledger.

All credits represent receipts or liabilities, as, for example:—

Drs.	*Crs.*
(*Expenses*)	(*Receipts*)
Wages, Purchases, Rent, &c.	Sales, Work done, &c.
or	or
(*Assets*)	(*Liabilities*)
Machinery, Buildings, Debtors, &c.	Bills Payable, Creditors.

Capital is increased by trading where there is profit, and decreased by loss.

If there is no capital in the Balance Sheet, the person is termed "insolvent," and the deficit appears as a credit.

As I have purposely left out dates and details in the accounts, the student should remember in business to give the dates (month, day, and year) correctly, also to folio carefully all the items, and to index the Ledger fully. Make all entries in the Sales and Purchases Books as fully as possible, the word "Goods," of course, being no use, give a good description, as:—

Two Bars Cast Iron, No. 5 @ 70/- £7 0 0

THE JOURNAL.

There is one book that is not as much used as it should be, and that is the Journal. It is ruled as follows:—

		Folio						

This book is very useful for opening and closing entries, and for such entries as are made in the Ledger from one account to another. In journalising, the debit entry comes first, and the receiving account is made *Dr.* to the giving account, as:—

	£	s	d	£	s	d
Smith, *Dr.*	100	0	0			
To Jones				100	0	0
Brown, *Dr.*	100	0	0			
To Goods				100	0	0

In the last entry Brown receives the goods and must be debited, and Goods being the giver must be credited.

We will take some examples of the usefulness of this book. If the student will turn to page 15 he will find the Capital Account of H. Triumph, the liabilities being Bills Payable, £100; and Furber & Co., £100; and the assets are Cash, £100; Pudge, £20; Sampson, £50; Machinery, £1,000; Stock, £500.

Taking the liabilities first, the Journal entry will run:—

	£	s	d	£	s	d
H. Triumph, Capital Account, *Dr.* ..	200	0	0			
(To Sundries)						
For Liabilities at date:—						
Bills Payable				100	0	0
Furber & Co.				100	0	0

For the assets the entry will be:—

Sundries, *Dr.*:—		
To H. Triumph, Capital Account		1,570 0 0
For Assets as at date:—		
Pudge	20 0 0	
Sampson	50 0 0	
Machinery	1,000 0 0	
Stock	500 0 0	

In the Ledger there will be an entry for each asset and liability; but the Capital Account will, of course, only contain the totals of each, as under:—

H. TRIUMPH—CAPITAL ACCOUNT.

	£ s d		£ s d
To Sundries ..	200 0 0	By Sundries ..	1,570 0 0

The cash is not journalised, as it is entered in the Cash Book and posted direct.

In regard to the closing entries (those above are opening entries), we must take the trial balance and close the Ledger Accounts, which represent profit and loss items, by Journal entry:—

			£ s d	£ s d
Profit and Loss Account	Dr.	C	65 10 0	
To Sundries	..			
Rent, Rates, &c.	..			55 10 0 A
Books and Stationery	..			10 0 0 B
(For Expenses for the Period)				
Sundries	Dr.			
To Profit and Loss Account				628 10 0 F
Gross Profit (Goods Account)	..	D	620 0 0	
Discounts	..	E	8 10 0	
For Receipts	..			

Here items A and B will be posted to the credit of the accounts named, and will close them; C and F are posted to the debit and credit of the Profit and Loss Account

respectively; D and E are posted to the debit of the individual accounts, which they close.

The Journal is very useful for cross entries from one account in the Ledger to another. Take an example. Suppose that Jones, who owes £100 on a bill due 25th June, fails to meet it, we must debit him and credit Bills Receivable; but it is much better to do this by Journal entry, which will be thus :—

	£	s	d	£	s	d
Jones, *Dr.*	100	0	0			
To Bills Receivable				100	0	0
(For Bill No. returned this day.)						

This description of the entry is called the narration.

Take another example. John Thomas is wrongly debited with £100, which should be debited to Joseph Thomas. The Journal entry will be :—

Joseph Thomas *Dr.* to John Thomas.

And the narration would be simply :—

"For error in posting."

PETTY CASH BOOK.

I made a passing reference to petty cash in the accounts, but there are one or two ways of keeping the same that, perhaps, would be useful to know. One way is to keep the petty cash as a Ledger Account, as well as having a Petty Cash Book, and draw cheques and debit the Petty Cash and credit Cash with the amounts. At the end of every month a summary of the payments is made, and the details are posted to the debit of Nominal Accounts in the Ledger and total to credit of Petty Cash in Ledger. A good way is to keep petty cash on the imprest system, which is to draw a cheque for £20, or other round sum, and at the end of the month add up the payments, and draw a

cheque for the exact amount spent, and post the expenses from the Cash Book direct. In this way the first cheque is restored, and the cashier is a debtor for the amount.

I give examples of both methods below. If the petty cash is kept on the columnar system it saves time and trouble.

Cheques	Date	Details		Total
£ s d	1901			£ s d
20 0 0	Jan 1	Cheque from Cashier		
	" 2	Books		0 5 0
	" 3	Stamps	1 10 0	
		Travelling Expenses	0 15 0	
		Cleaning Offices	0 7 6	
	" 4	Rubber Bands		2 12 6
		Typewriter Ribbons		0 2 6
	" 5	Other amounts, as per details		0 5 6
				10 5 0
		Balance in hand		13 10 6
				6 9 6
£20 0 0				£20 0 0

SUMMARY.

	£ s d
Books and Stationery	2 5 0
Stamps	5 10 0
Travelling	1 10 0
Cleaning	0 15 0
Typewriter Account	1 10 0
Sundries	2 0 6
	£13 10 6

These are posted by Journal entry to Ledger.

LEDGER.

PETTY CASH ACCOUNT.

1901		C B	£ s d	1901			£ s d
Jan. 1	To Cash ..	I	20 0 0	Jan. 31	By Sundries ..	J	13 10 6

On Imprest System.

LEDGER.

Dr.			PETTY CASH.				*Cr.*
Jan. 1	To Cash ..		£ s d 20 0 0				£ s d

PETTY CASH BOOK.

| From Cashier | | | *Payments.* | | | |

him; and, in like manner, when we refuse to accept goods from our traders, we must debit them in the Ledger. Therefore the entries in the one book are all posted to debits, in the other to credits.

The books are added up, and at the end of the financial period the totals are carried to Goods Account or to Sales and Purchases respectively, the totals of Returns Inwards going to the debit of one of the accounts, the Returns Outwards in total going to the credit of Goods or Purchases. In making out the Profit and Loss Account, it is usual to deduct the returns from the Sales and Purchases respectively, as under:—

	£	s	d		£	s	d
Purchases	8,025	0	0	Sales	10,548	0	0
Less Returns ..	28	0	0	*Less* Returns ..	79	0	0
	£7,997	0	0		£10,469	0	0

The Private Ledger.—This Ledger is used for keeping the Capital Accounts in, and the Impersonal Accounts making up the Profit and Loss Accounts and Balance Sheets, which are generally written up in detail in the book named. As the book is used for these private purposes it is frequently kept by the proprietor himself, or by the secretary of a company, and often has a lock upon it to preserve its secrecy.

Bill Books.—These are kept for the purpose of reference, and contain the particulars of all bills given and taken, and show at a glance when they become due. This saves the trouble of entering the bill at once to the Bills Receivable or Bills Payable Account in the Ledger, as they can be entered in total monthly or less often. I give sketches of same:—

Bills Receivable Book.

No.	Date	From whom Received	By whom Drawn	Where Payable	When Due												Folio	Amount	Remarks
					J.	F.	M.	A.	M.	J.	J.	A.	S.	O.	N.	D.			

Bills Payable.

No.	Date	To whom Payable	On whom Drawn	Where Payable	When Due												To	Amount	Remarks
					J.	F.	M.	A.	M.	J.	J.	A.	S.	O.	N.	D.			

THE CASH BOOK.

In the foregoing exercises I have assumed that the Cash Book was kept on the general principle of banking all moneys received and making payments by cheque, but there is another way of keeping cash that one sometimes comes across, and it is useful to know how it is worked. In this system all cash received is entered in Column 2 (see below). When any money is paid to bank an entry is made in Column 5 and another in Column 3. This is simple, if you remember that the entry is *Dr.* Bank, *Cr.* Cash. If cash is drawn from the bank the entry is made in Column 6 and another in Column 2, this being *Dr.* Cash, *Cr.* Bank. If a cheque is received, and paid direct to bank, only one entry is necessary in Column 3; and if a cheque is drawn to pay an account, only one entry is needed on the credit side in Column 6. I show some entries in the Cash Book below:—

Dr. CASH BOOK. *Cr.*

		1	2	3			4	5	6
		Disct.	Cash	Bank			Disct.	Cash	Bank
1901			£ s d	£ s d	1901			£ s d	£ s d
Jan. 1	To Lewis	£1	50 0 0		Jan. 3	By Bank	√	150 0 0	
„ 2	„ Peters		100 0 0			„ Wages		10 0 0	
„ 3	„ Cash Sales		50 0 0			„ Rent		5 0 0	
						„ Brooks			10 0 0
	„ Cash	√		150 0 0	„ 5	„ Bank	√	100 0 0	
„ 4	„ Samuel & Co.		100 0 0		„ 8	„ Cash	√		20 0 0
„ 5	„ Lewis		50 0 0						
	„ Cash	√		100 0 0					
„ 8	„ Bank	√	20 0 0						

There is no posting folio for these particular transfers from Cash to Bank, or *vice versâ*, but usually a tick is put to show that the folio has not been missed. This class of Cash Book is useful in the country, where business is, perhaps, some distance

from a bank. Notice that Bills Receivable and Payable should not be entered in the Cash Book direct. It is advisable that all the vouchers for payments made in a Cash Book should be in order, as it is a great help to the auditors, and a great nuisance if they are all about.

EXPENSES BOOK.

In making out accounts it is necessary to remember the fact that the Profit and Loss Account for a given period represents any expenditure incurred in that given period, and so with the Sales, &c. Expenses are usually entered in the Bought Journal, and either a summary made at the end of each month or other period, or the book is kept in columns, and the totals of the columns are posted to the debit of Nominal Accounts in the Ledger. In some businesses it is rather an advantage to keep the purchases (in the strict sense of the word, I mean goods bought to sell again) separately, and to have another book for expenses, called either the "Credit Book" or simply the "Expenses Journal." If the latter is kept in columns it will save a good deal of time and trouble, as the totals can be posted each month.

I give a suitable ruling for such a Credit Book:—

EXPENSES BOOK

Date	Folio	Particulars, Name, &c.	Total	Rent, Rates, &c.	Coal & Gas	Repairs	Insurance	Books & Stationery	Advertising	Office & Travelling				Sundries*	Folio

*This column is useful for posting all items not included in the various columns.

One advantage of having a book for this purpose separate from the purchases is that for the latter it is advisable to give a large amount of detail of each invoice, and if a whole page is occupied with one invoice, as it sometimes is, the other columns are wasted.

CONSIGNMENT ACCOUNTS.

Consignment Accounts are not quite in the category of Elementary Bookkeeping Accounts, but a question is often set in examination papers, and it is as well to be prepared for such a contingency. When we consign goods to a man it is not a sale, because he has to sell them, and if he cannot he may return them. It is generally a question of agency, the man to whom the goods are consigned or sent acting as our agent, and he must account to us. We will suppose that we consign to H. Pratt on the 1st April 1900 goods amounting to £500. We must credit the person from whom we get the goods, but we cannot debit Pratt until we know what the goods realise, so we open an account marked "Consignment," or "Consignment to Pratt," and debit it with the value of the goods. We pay expenses amounting to £20, which we debit the Consignment Account with, and on the 1st May we receive an Account Sales, or a statement showing what he has sold, from Pratt. The account shows that the goods realised £680, but he has paid expenses £20, and his commission is £35. We therefore debit Pratt and credit the Consignment Account with the £680, and credit him and debit the Consignment Account with the expenses and commission.

When he sends cash we credit him with the cash. There should be no difficulty about the accounts, as they are all very similar.

LEDGER ACCOUNT.

Dr. CONSIGNMENT TO PRATT. *Cr.*

1900		£	s	d	1900		£	s	d
April 1.—To Goods ..		500	0	0	May 1.—By Pratt ..		680	0	0
,, Cash Expenses		20	0	0					
May 1. ,, Pratt Expenses		20	0	0					
,, Pratt Commission		35	0	0					
,, Profit and Loss ..		105	0	0					
		£680	0	0			£680	0	0

PRATT.

1900	£	s	d	1900	£	s	d
May 1.—To Consignment A/c ..	680	0	0	May 1.—By Expenses	20	0	0
				,, Commission	35	0	0
				,, 30. ,, Cash ..	625	0	0
	£680	0	0		£680	0	0

CASH.

1900	£	s	d	1900	£	s	d
May 30.—To Pratt. Consignment	625	0	0	April 1.—By Consignment Expenses ..	20	0	0

PROFIT AND LOSS ACCOUNT.

1900	£	s	d
May 1.—By Consignment A/c..	105	0	0

GOODS ACCOUNT.

1900	£	s	d
April 1.—By Consignment to Pratt	500	0	0

EXERCISES IN BOOKKEEPING.

Exercise I.

J. Spratt opens a business on January 1 1901, with the following assets and liabilities:—

	Assets.		
Cash at Bank	£1,000	0	0
Bills Receivable	250	0	0
Goods on hand	1,500	0	0
	Liabilities.		
Due to J. Salmon	200	0	0
Bills Payable	500	0	0

His transactions during January are:—

Jan. 2	Bought Goods from Plaice & Co. ..	£100	0	0
3	Sold Goods to Turbot Bros... ..	250	0	0
4	Paid Wages	20	0	0
5	Received Cash Sales	15	0	0
6	Bought Goods from Plaice & Co. ..	1,000	0	0
7	Accepted Plaice & Co.'s Draft ..	1,100	0	0
8	Sold Goods to T. Shrimp	120	0	0
9	Paid Bills Payable	500	0	0
10	Paid J. Salmon	200	0	0
11	Sold Goods to Hake & Son	1,200	0	0
14	Bought Goods for Cash	200	0	0
15	Received Cash for Bills Receivable ..	250	0	0
16	Paid for Stationery	10	0	0
17	Drew Cheque for Petty Cash ..	5	10	0
25	Bought Machinery	120	0	0
28	Bought Tools from Silver & Co. ..	18	10	0
31	Sold part of Machinery for	20	0	0

Stock at Date	£120	0	0
Rent due to Prout	15	0	0

The student is required to enter the accounts in the Ledger only, prepare trial balance and Profit and Loss Account and Balance Sheet.

Exercise II.

Exercise I. is to be entered in the proper books of account, and trial balance prepared.

Exercise III.

Write up Smith & Co.'s Cash Book from the following entries:—

1900		£	s	d
Jan. 1	Cash at Bank	1,200	0	0
	Cash in Hand	150	0	0
2	Received Cash from Green Bros.	200	0	0
3	Paid Wages by Cash	10	0	0
4	Paid Rates	15	0	0
5	Received Cheque from Starples & Co. ..	150	0	0
6	Paid Cash to Bank	300	0	0
7	Received Cash for Bills Discounted ..	1,500	0	0
8	Bank Charges as per Pass Book	10	0	0
9	Paid Jones and Lewis	100	0	0
10	Drew Cheque for Machinery	150	0	0
11	Received Cash from T. Sapiens	1,000	0	0
12	Paid Cash to Drew Bros.	150	0	0
13	Paid Cash to Bank	650	0	0
14	Drew Cash from Bank for Private Use ..	150	0	0

Exercise IV.

From the trial balance prepare Profit and Loss Account and Balance Sheet as at December 31 1900.

TRIAL BALANCE.—31 December 1900.

	Drs. £	s	d	Crs. £	s	d
John Fellows' Capital Account ..				1,500	0	0
Interest Account	50	0	0			
Rent of Warehouse	25	0	0			
Rates and Taxes	10	0	0			
Machinery and Plant	1,000	0	0			
Sundry Debtors	2,000	0	0			
Bills Receivable	150	0	0			
Sundry Creditors				1,200	0	0
Bankers				100	0	0
Business Premises	2,000	0	0			
Loan on Mortgage				1,500	0	0
Interest on Loan	25	0	0			
Wages..	1,500	0	0			
Stock at Jan. 1 1900	250	0	0			
Salaries	350	0	0			
Bills Payable				500	0	0
Loose Tools	50	0	0			
Cash in Hand	50	0	0			
Books and Stationery	25	0	0			
Office Expenses	35	0	0			
Sales				4,820	0	0
Purchases	2,100	0	0			
	£9,620	0	0	£9,620	0	0

Exercise V.

Journalise the following transactions of H. Frame during January 1901:—

1901				
Jan. 1	Sold Goods to L. Simes	£100	0	0
2	Bought Goods from T. Pretty ..	250	0	0
4	Bought Goods from T. James ..	1,500	0	0
5	Sold Goods to L. Lion	300	0	0
6	Accepted T. James' Draft	1,000	0	0
7	Received Bill from L. Lion	300	0	0
8	Paid Rent	50	0	0

Jan. 9	Received Account from Simpson Bros., for Books	25	0	0
10	Received Letter from Lion enclosing cheque for .. .. .. (to pay bill)	300	0	0
11	Goods Bought from T. James credited in error to T. Jones	250	0	0
12	Received Cash for Debt due by F. Plant, being 10s. in the £ .. .. (Write off remainder to Bad Debt.)	250	0	0

Exercise VI.

Show how to deal with Petty Cash items as follows:—

On Jan. 31 1901 drew Cheque for Petty Cash, £50.

Feb. 28 1901 the Expenses for the Month were:—

Stamps	£15	0	0
Cleaning	5	0	0
Stationery	5	4	0
String	2	0	0
Elastic Bands, &c.	0	5	0
Duplicating Paper	0	10	0
Stencils	0	5	0
Ink	0	10	0

Exercise VII.

From the following transactions write up the books and prepare Profit and Loss Account:—

THOS. TABLE, 31 December 1899.

Liabilities.		*Assets.*	
Unpaid Rates ..	£10 0 0	Tools	£150 0 0
J. Deal	150 0 0	Fixtures, &c. ..	40 0 0
		Horses, Carts, &c.	20 0 0
		Stock	150 0 0
		W. Bench ..	140 0 0
		Cash at Bank ..	150 0 0

1900				
Jan. 1	Paid Rates	£10	0	0
	Received Cash from Bench	140	0	0
2	Sold Goods to L. Oak	20	0	0
3	Bought Timber from Deal	120	0	0
	Paid Deal	200	0	0
	Bought Tools for Cash	10	0	0
4	Sold Goods to F. Elm	50	0	0
	Cash Sales for week	10	0	0
	Bought New Cart from J. Ash ..	25	0	0
20	Paid Rent	10	0	0
21	Paid Wages	15	0	0
22	Sold Goods to Lever & Co.	115	0	0

Goods in hand, £150.

Exercise VIII.

Show how you would deal with the following items:—

1901

Jan. 12 Goods debited in error to Lewis Brown should be Lewis Brook, £50.

13 Bill Receivable due by Jackson returned dishonoured, £300.

14 Bank advise they have discounted Bill for £500.

15 Goods returned to L. Parpit as unfit for use, £200

16 L. Simson sends back Goods as being unfit for use, £100.

17 L. Graham stated that £50 due by him was paid by his father in error and credited to his father.

20 Cash Purchase of Tools should have been purchase from R. Joiner, Tools, £50.

31 Discounts allowed by Firm, £20.
(In Cash Book to customers.)

Exercise IX.

On the 1st January 1901 Charles Oliver ascertained that his affairs were as follows:—

Assets.		*Liabilities.*	
Cash at Bank ..	£1,000 0 0	Loan	£1,000 0 0
Bills Receivable ..	50 0 0	Creditors:	
Buildings	2,500 0 0	T. Soap	250 0 0
		L. French ..	300 0 0
		Bills Payable ..	1,500 0 0

His transactions for the following fortnight were:—

Jan. 2	Bought goods from T. Soap ..	£300	0 0
3	Bought goods from L. French ..	550	0 0
4	Sold goods to Rippin Bros.	680	0 0
5	Paid Rent	50	0 0
6	Paid Rates	10	0 0
7	Paid Bills Payable	1,000	0 0
8	Paid to French	200	0 0
9	Sold goods to Rippin Bros.	240	0 0
10	Received cheque from Rippin ..	500	0 0
11	Drew for Private Uses	250	0 0
12	Lost part of Buildings by Fire (not insured fully) Insurance for £250 ..	500	0 0

Make out Profit and Loss Account and Balance Sheet as at 31st January 1901.

Exercise X.

The following figures are given you as a trial balance of Allen & Co. at 30th June 1900:—

	Drs.	*Crs.*
Sales		£8,400 0 0
Purchases	£2,100 0 0	
Machinery	1,000 0 0	
Tools and Plant	500 0 0	
Buildings	5,000 0 0	
Loan on Mortgage		2,500 0 0
Bankers		1,000 0 0

Printing and Stationery, etc.			50	0	0			
Wages			1,550	0	0			
Repairs			20	0	0			
Salaries			250	0	0			
Stock at Jan. 1900			4,500	0	0			
Discounts						25	0	0
Rates and Taxes			50	0	0			
Coal and Gas			26	0	0			
Carriage and Hauling			150	0	0			
General Expenses			125	0	0			
Patents			80	0	0			
Wood Blocks for Printing, etc. ..			20	0	0			
Capital—H. Allen						832	0	0
,, J. Allen						1,664	0	0
			£15,421	0	0	£15,421	0	0

You are required to write off depreciation from the following:—

Machinery	5	per cent. per annum
Tools and Plant ..	10	,, ,,
Patents	20	,, ,,
Blocks	50	,, ,,

and to credit partners with interest at 5 per cent. per annum.

Make out a Profit and Loss Account and Balance Sheet. The profit is to be divided as follows:—

H. Allen, $\frac{1}{3}$th.
J. Allen, $\frac{7}{8}$ths.

Exercise XI.

Enter the following transactions in the books of J. Slader and T. Harten, respectively.

On January 1 Slader consigns to T. Harten the following goods:—

	£	s	d
1 Dozen barrels Apples @ 5s.	3	0	0
2 ,, ,, ,, @ 10s.	12	0	0
5 Tons of Potatoes @ £4 per ton	20	0	0
150 Bundles Asparagus @ 2s.	15	0	0

J. Slader pays carriage amounting to £5, cartage 30s., sundry charges £2. Harten pays for rent of warehouse £3, general charges 30s. On the 1st March Harten sends Account Sales, showing the goods realised £88, his commission being £8. On the 31st March Harten sends cheque for the balance.

Exercise XII.

On January 1 1901 W. Lewis and T. Williams started business with the following assets and liabilities:—

Liabilities.		*Assets.*	
Williams. Capital ..	£1000	Cash	£500
Lewis. ,, ..	500	Goods	750
Bills Payable	500	J. Shrimpton	200
		Bills Rec.	550

T. Williams was to have two-thirds and Lewis one-third of the profits. Both partners were to have 5 per cent. interest on capital, and were to be charged 5 per cent. on all money drawn over a specified sum by each partner—viz., Williams £300, Lewis £200.

On June 30 the following trial balance was prepared:—

You are required to make up the accounts from the information given, and make out Profit and Loss Account and Balance Sheet.

TRIAL BALANCE.

WILLIAMS AND LEWIS.

	£ s d	£ s d
T. Williams. Capital		1,000 0 0
H. Lewis. ,, ...		500 0 0
Bills Payable		250 0 0
Cash	610 0 0	
Sales		6,850 0 0
Purchases	3,420 0 0	
Wages	500 0 0	
Drawings. Williams'	120 0 0	
,, Lewis	150 0 0	
Debtors	3,200 0 0	
Rent, Rates, &c.	55 0 0	
Books and Stationery	25 0 0	
Printing and Advertising ..	15 0 0	
Stock	750 0 0	
Creditors		1,050 0 0
Carriage	110 0 0	
Insurance	50 0 0	
Salaries	550 0 0	
Insurances in advance	40 0 0	
Bad Debts	55 0 0	
	£9,650 0 0	£9,650 0 0

DEFINITIONS.

Acceptance.—See Bill of Exchange.

Assets.—Possessions, Property.

Bill of Exchange.—An Order promising to pay a certain amount in a specified time.

Capital.—The Excess of Assets over Liabilities.

Discount.—A deduction or allowance from an Account. Notice Trade Discount is deducted at once, Cash Discount only when Cash is paid.

Debentures.—From Latin, "*Debeo*," I owe—merely moneys owing to holders.

Dividend.—A form of interest on money invested.

Draft.—Another word for Bill of Exchange.

E. & O. E.—Errors and omissions excepted.

I O U.—Simply means, I Owe You—an acknowledgment.

Lease.—Tenure of Property for a fixed period.

Liabilities.—Moneys due to Persons.

Mortgage.—Charge on Property.

Mortgage Debentures.—Money owing to holders who are secured by mortgage.

Nominal Account.—Account representing Expenses or Receipts.

Personal Account.—Account in name of person.

Promissory Note.—A Bill or promise to pay.

Reserve Fund.—Part of Profit transferred to a separate Account.

Real Account.—Account representing Property.

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